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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 000295

SIPDIS

USTR FOR BEEMAN AND HOLLOWAY
PARIS FOR USOECD

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TAGS: EFIN ETRD PGOV JA
SUBJECT: POSTAL PRIVATIZATION DEVELOPMENTS RATTLE U.S.
INSURANCE INDUSTRY

REF: A. STATE 3451
¶B. TOKYO 176
¶C. 07 TOKYO 2716

Classified By: Charge d'Affaires J. Zumwalt for reasons 1.4 b/d.

Summary

¶1. (C) Signs Japan Post Insurance might introduce a new product continue to ratchet up concerns among U.S. insurers operating in Japan. It is still early in Japan Post Insurance's ten-year privatization process and a new product would enjoy substantial non-competitive advantages, several stakeholders have told the Embassy. General regression on Japan's commitment to economic reform and the postal privatization process have further exacerbated tensions. The American Council of Life Insurers is engaging Washington agencies and Congressional contacts. Embassy continues to press USG concerns with Japanese officials. End summary.

Japan Post Insurance's Product Trial Balloon

¶2. (SBU) In late December 2008 press conference, Japan Post Holdings Group President Yoshifumi Nishikawa alluded to a potential new cancer insurance product to be developed through a tie-up of Japan Post Insurance ("Kampo") and Nippon Life Insurance ("Nissay") and distributed through the postal network. The introduction of a stand-alone product would be a first for Japan Post Insurance since it began its ten-year privatization process in October 2007. It would also bring Japan Post Insurance into the lucrative "third-sector" of medical and cancer insurance, a sector dominated by U.S. and other foreign firms.

¶3. (C) American insurers have expressed serious concerns about the potential new insurance product and its competition effects, both to the Embassy and to Washington agencies. On Washington's instructions (ref A), the Embassy delivered a demarche to the Financial Services Agency (FSA), the Office for Privatization of Postal Services (OPJP), and the Ministry of Internal Affairs and Communications (MIC). The three government agencies responded in a coordinated fashion, making two key points: 1) Japan Post Insurance has made no formal product application; and 2) the GOJ will treat any application in a transparent manner, taking equivalent conditions of competition into consideration as demanded by the Postal Privatization Law. The full response is contained

in ref B.

¶4. (C) The stakes for U.S. firms are high. Japan has the world's second largest life insurance market and U.S. companies generate around $50 billion in premium revenue per year from their Japanese operations. Moreover, Japan Post Insurance is the largest single market player, and changes to its business model due to postal privatization can open or close significant business opportunities to U.S. firms. The day Aflac announced an exclusive tie-up with the Japan Post Network Company to sell a cancer insurance product, for example, its market capitalization rose $1.8 billion. Because Japan Post Insurance has automatic access to the Japan Post Network Company's 24,000 post offices, its product would compete directly with Aflac's -- both in terms of product coverage and marketing channel. (Note: Ref C contains background on the overall privatization process. End note.)

Recent Actions

¶5. (C) In addition to ref B demarche, the Embassy has engaged the Ministry of Foreign Affairs (MOFA) and Ministry of Economy, Trade, and Industry (METI) through the director general level and has revisited the FSA. METI and MOFA DGs and others note ongoing discussions within their ministries and MOFA DG for International Economics agreed February 6 to contact MIC regarding U.S. concerns. Based on conversations with FSA officials, it is clear senior officials in the FSA's International Bureau and in its Supervisory Bureau have been briefed on U.S. concerns. The European Business Council

(EBC) also expressed its concerns to the FSA during the week of January 19.

¶6. (C) The Charge met with Aflac Japan Chairman Charles Lake January 30 to hear the company's concerns, which center around the lack of a level playing field between Japan Post Insurance and private companies. Japan Post Insurance's deemed license, its preferred access to the postal network, the guaranteed revenue stream it receives through reinsurance of pre-privatization Japan Post insurance policies, and the unique way in which the FSA's Japan Post Supervisory function is organized were all cited as reasons equivalent competitive conditions have not been established.

¶7. (C) On February 5 and February 6, the EMIN met with Brad Smith, the Chief International Officer of the American Council of Life Insurers (ACLI), as well as a representative of a major U.S. insurer. Both expressed concerns that a level playing field has not been established for Japan Post Insurance and that Japan Post Insurance should not be allowed to introduce a new or altered product until such conditions have been established. Because such a product would disadvantage U.S. firms, Smith told EMIN the ACLI had been working its Congressional contacts to alert them to a potential trade issue. ACLI is also exploring the possibility of a Member of Congress or a Committee issuing a letter on the subject to Japanese Ambassador Fujisaki.

¶8. (C) There has been no official comment on the new product because Japan Post Insurance has not filed a formal application. In previous interactions with the Embassy and in documents filed with the Postal Services Privatization Committee, however, the Japan Post Group has made it clear it sees new product launches as necessary to show that it can be a successful business and maximize the value of its expected 2010 or 2011 initial public offering.

Postal Privatization Regresses

¶9. (SBU) Japan Post Insurance's moves toward introducing a new cancer product are occurring against a general regression on postal privatization. This privatization initiative was former PM Koizumi's signature issue in the ruling Liberal

Democratic Party's (LDP) 2005 landslide victory in Lower House elections, but the LDP has since backed away from the banner of Koizumi's structural economic reform.

¶10. (C) In recent weeks, MIC Minister Hatoyama intervened to block the sale of a chain of hotel and housing properties owned by Japan Post. The sale had been decided by an open tender process, but Hatoyama argued the bid price was too low and the deal was "unfair." His intervention marked the first time the MIC Minister exercised his power to block a privatization operation and is seen by many in the business community as blatant political interference in the privatization process.

¶11. (C) The Japanese press is also carrying a number of reports that the LDP is also "re-examining" the postal privatization process and its related project team is expected to release recommendations for how the process should be altered by the end of February. In February 5 comments to a Diet committee, PM Aso said he is willing to review the planned split of Japan Post into four companies. He subsequently backtracked on his comments, saying he did not have the power to direct the project team's deliberations and framing any review as a way to ensure the privatization results in profitable business entities. However, Embassy contacts in the business community have pointed to the PM's remarks as another indication privatization is "coming off the rails."

Comment

¶12. (C) The combination of Japan Post Insurance's move to introduce a new product and overall negative signs about the direction of privatization have quickly ratcheted up concerns in the U.S. business community. While we continue to engage

numerous GOJ agencies to ensure U.S. insurers are not disadvantaged, we need to be making additional points as well to advance the range of USG interests in the successful privatization of Japan Post and the creation and maintenance of a level playing field. These interests include the healthy transition of the Japan Post financial entities such that they do not destabilize the market and the fostering of a process that encourages continued Japanese liberalization, privatization, and transparency.

ZUMWALT